



Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

Restoring the statehouse

The completion of the Oklahoma State Capitol was a triumph of achievement for our young state in 1917. Finished for just more than \$1.5 million, the building reflected the hopes and ideals of this new state in its grand south entrance, marble floors, carved limestone façade, and cavernous corridors. A newspaper report during construction noted, “the Oklahoma Capitol will invite future visitors with an impression of monumental loftiness.”

Even today, standing at the bottom of the grand staircase and looking up into the beautiful rotunda on the fourth

floor fills long-time Capitol employees and first-time visitors alike with awe and appreciation of this magnificent structure.

Unfortunately, the passage of time has not been kind to the Capitol. Cracked and damaged limestone along with previous poor repairs have caused water to infiltrate the veneer. Stains, both biological and man-made, dot the once pristine stone. Pieces of limestone, forced loose by rusting anchors, fall off the building eliciting concerns for the safety of those walking below.

On the interior, original cast iron plumbing, long past its useful life, barely manages to serve the building occupants. The electrical system still uses some of the original wiring installed during the Woodrow Wilson administration.

The public spaces are not climate controlled, the information technology infrastructure requires modernization, and the design elements are a patchwork quilt of finishes based usually on the cheapest available rather than what is most appropriate for the space. The tunnel connecting the building to

the east parking lot fills with water routinely, as do other areas of the building. Disability access issues abound as do concerns about security in and around the building.

“We are presented with a once-in-a-generation opportunity to preserve the capitol while making it more functional for those who utilize it.”

Furthermore, the building is not user friendly to visitors who must park several hundred yards from the entrance, typically miss the Visitor Center upon getting into the building, and are left to wander the halls due to inadequate signage.

The good news is we are well on our way to correcting the ills noted above. With the passage of HJR 1033 in 2014, \$120 million in bond funding was allocated to the repair and restoration of the Capitol. Tasked with executing the project, the Office of Management and Enterprise Services (OMES) began selecting vendors to perform the work and thoroughly investigate the condition of the building.

Projects of this magnitude should be done thoughtfully, with an eye toward spending taxpayer resources responsibly while also understanding

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Guest Commentary

By Dr. Bob Blackburn, Executive Director,
Oklahoma Historical Society

The Oklahoma Capitol Building: Artifact Number One

In 1998 I was part of a team asked to prepare a plan for a new Oklahoma History Center. We looked at a variety of issues including location and orientation. The unanimous choice of the group was the northeast corner of 23rd and Lincoln, which suggested a natural orientation.

We pushed the building as close to the intersection as possible and aligned the main entrance and great hall to give each visitor a view of what I called “Artifact Number One.” It was the State Capitol.

For me, the Capitol is a touchstone where our story begins. We do not have an Alamo. We do not have a founding father. We do not have a point in time that we call the beginning. Instead, Oklahoma is a patchwork quilt of settlement with people coming from different places at different times for different reasons.

Given that diversity, the one thread that binds our story into a tapestry is our status as the State of Oklahoma. The State Capitol is the symbol of our unity as a community.

I have worked in and around the State Capitol for 36 years and I still have a sense of awe when I am there.

It is not the architecture, although it is the greatest interior space in the state. It is not the art, although that is a true reflection of our shared story.

“Today, the Capitol is getting the respect it deserves. We, the people, are investing in the symbol of our unity as a community.”

To me, the awe comes from the history that has unfolded within those walls and the men and women who have been willing to serve our people.

Some of those stories are dramatic, such as the day Governor Jack Walton placed a machine gun nest in front of the House chambers to prevent an impeachment vote. Other stories are tame, with the wheels of deliberation



and debate proving that our representative form of government does work.

Today, the Capitol is getting the respect it deserves. We, the people, are investing in the symbol of our unity as a community.

The people assembled to plan the work are asking the right questions. The consultants selected to do the work have a proven track record of success.

As the rehabilitation continues over the next few years, we should celebrate the importance of the Capitol and support those who have allocated the resources to bring it back to its original glory with modern efficiencies.

Yes, the State Capitol is artifact number one, a place, a structure, a story that all Oklahomans share.



Capitol

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the opportunity to ensure the viability of the building for years to come. In other words, shortsightedness has no place in this project. The project team, elected officials, building stakeholders, and citizens are presented with a once-in-a-generation opportunity to preserve the Capitol while making it more functional for those who utilize it.

Since day one, OMES has been determined not to repeat the mistakes of the past which have been rendered in these halls by ill-conceived repairs and modifications. The quick fix, used many times on this structure in bygone years, will not accomplish the goals which have been established for this project.

To that end, the project team has begun the process of trial repairs on the

exterior of the building. The trial repair phase affords the project team the ability to perform a deep investigation of the culprits causing problems on the exterior skin of the structure while also testing different methods of addressing those issues. For example, bond line failure in the mortar joints exists over the entirety of the building. By erecting scaffolding at key locations around the Capitol, the team has been able to closely examine the joints.

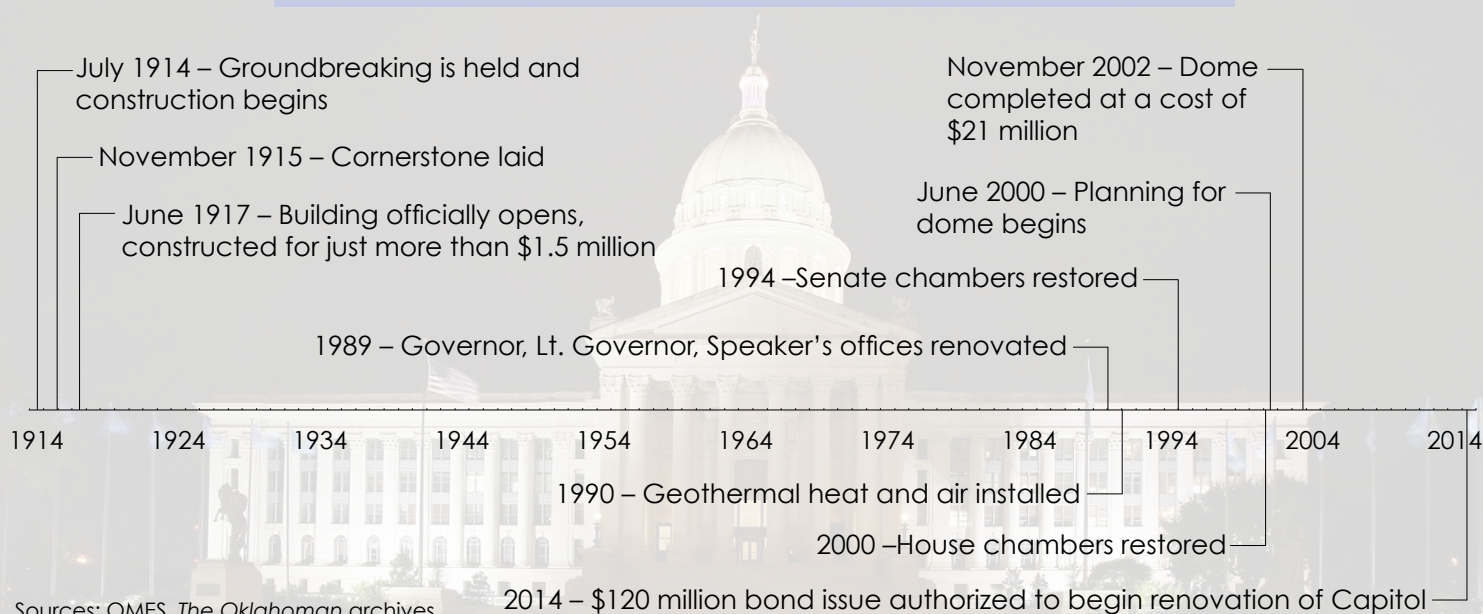
Preservation architects and engineers determined previous repointing (the removal and replacement of mortar) of the mortar joints was done at an insufficient depth and with the wrong type of mortar. The result was continued moisture infiltration behind the limestone.

To make matters worse, when the sub-par repair job was noticed, the corrective action should have been to grind out the joints again and use the appropriate mortar. Instead, a cement-like coating was haphazardly spread over the joints and the building was sprayed with a sealer. It should come as no surprise that neither of those actions solved the problem.

By the end of September, when the trial repairs are concluded, the team will have an understanding of the methods and materials which will achieve the best long-term results. The project team will have extracted several windows to determine whether they can be restored or must be replaced. Numerous methods

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Oklahoma State Capitol Timeline



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Capitol

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for cleaning the stained limestone will have been tested, including laser cleaning.

Inspection openings at various parts of the building will have been opened in an effort to understand why the stone has cracked and spalled over time. At that point, the construction vendor will present OMES with various options to address each problem. In some cases, the right answer will not be the cheap one, but it will be the best for the building.

On the interior of the Capitol, the project team has undertaken an effort to do something which has not been done in the building's history: compile a 3D building information management (BIM) model of the plumbing, HVAC, and electrical systems. This BIM model becomes the starting point for all future repairs. It is impossible to design a modern infrastructure system until an understanding is gained of the current layout.

To complete the model, architects and engineers started with the original architectural drawings by Solomon Layton. Then, they engaged in a room-by-room inspection to determine if the original drawings matched the reality. With more than 600 rooms in the Capitol, it was a gargantuan task. To date, the team has generated over 55,000 pages of notes from their investigation. From now on, any change in the building's systems can be fed into the model and it can be used as a tool for the restoration project and maintenance efforts in the future.

Work inside the building is imminent as office space is being prepared for

rehabilitation on the upper floors. This work is a necessary pre-requisite to the start of major construction operations in the basement – the infrastructure hub of the Capitol. In order to start the basement work, the team must move staff members to the upper floors. This is a part of the strategy developed by our contractors, which will save significant money on soft costs.

It is understood there will be uncertainty in a project of this nature. Nevertheless, one thing the project team is certain about is the need for additional funding to properly finish the project. In the past, the Capitol has not been maintained to the degree necessary due to funding constraints and prioritization of other projects.

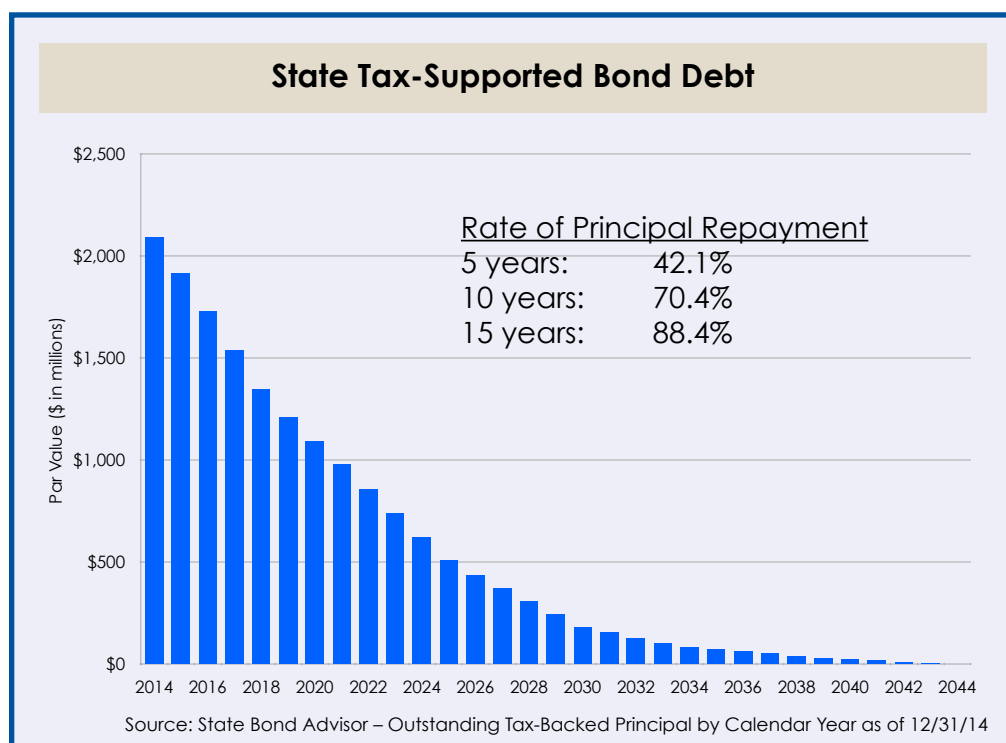
Unfortunately, the needs did not go away, they just got bigger over time.

Similar to ignoring regular oil changes in your car, one may think money is being saved, but sooner or later, the catastrophic result will manifest itself.

Thankfully, the economic climate for the issuance of bonds to finance large capital projects such as this is very good. Interest rates are at historic lows making the cost to borrow money relatively cheap. Even better, Oklahoma currently has a low debt ratio and it will get even lower in the next few years as approximately 40 percent of our bond debt is retired. In short, due to the imminent retirement of current debt, the state can issue new bonds for the Capitol and not increase the percentage of debt currently owed.

By approving the issuance of new bonds for the project, the state can build

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Capitol

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long-term certainty into the project. Oklahoma can be a model for the rest of the country on large, complex projects of this nature.

Most states provide funding on a piecemeal basis, requiring construction teams to exit when the funding depletes and return when a new round of funding is authorized. These starts and stops add millions of dollars in unnecessary costs.

With funding certainty granted, Oklahoma could follow a master plan and realize efficiencies of scale along the way. What's more, while the project may be authorized for a large bond amount, the state only gives approval to spend the funds in increments needed for the near future, thus saving money on interest.

The Oklahoma State Capitol is a legacy

Follow the latest news on the Capitol Restoration Project

The web: www.capitolrestore.ok.gov

Facebook: www.facebook.com/OKCapitolRestoration

Twitter: www.twitter.com/CapitolRestore

Instagram: www.instagram.com/OKCapitolRestoration

gift from the hard-working men and women who formed this state to all of its citizens. It is a symbol of the people's resolve and speaks to all that can be accomplished with determination and a little bit of the '89er Spirit.

The Capitol is not just a building. It is a place for ideas and for hope. It is a place to learn and a place for reflection. It is a place for democracy and a reminder that Oklahomans have always done great things and even greater

accomplishments await in the future. An opportunity like this is not likely to come along again in our lifetimes. We should resolve not to squander it and, in turn, all of Oklahoma will be proud of the result.

Trait Thompson

State Capitol Project Manager,
Oklahoma Office of
Management and Enterprise
Services

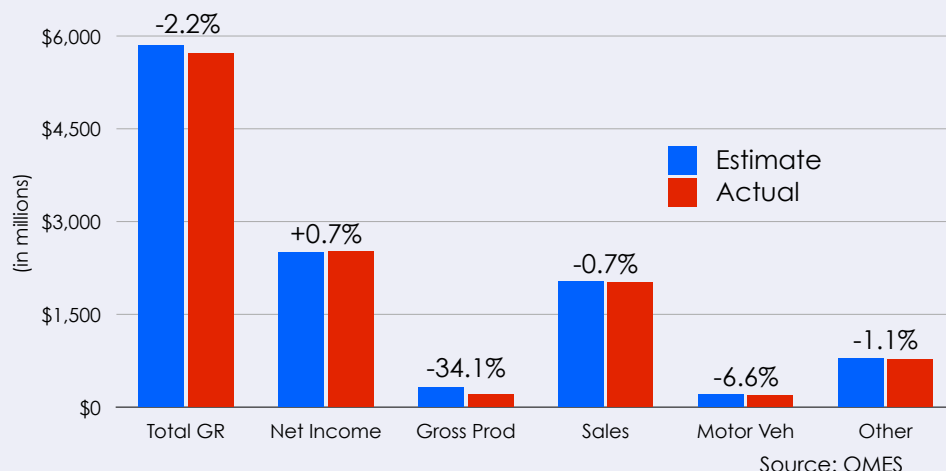
General Revenue finishes year slightly below estimate

With tumbling crude oil prices throughout most of FY-15, General Revenue Fund (GRF) allocations finished the year below the official estimate by just more than two percent.

Total GRF allocations of \$5.73 billion were short of the estimate by \$129.9 million, or 2.2 percent, according to the Office of Management and Enterprise Services (OMES). Gross production taxes on oil and natural gas missed the estimate by the largest percentage, off by \$110.2 million, or 34.1 percent.

In spite of missing the estimate, total FY-15 collections topped FY-14 numbers by \$98.5 million, or 1.8 percent, OMES reported.

General Revenue Fund FY-15 Collections vs. Estimate





Fiscal Year Gross Receipts & General Revenue compared

Gross Receipts to the Treasury during FY-15 totaled \$11.99 billion, compared to \$5.73 billion, or 47.8%, that was allocated to the General Revenue Fund (GRF).

In the month of June, the GRF received 53.6% of the gross. The monthly percentage varied from 35.7% to 53.6% during the fiscal year.

From FY-15 gross receipts, the GRF received:

- Personal income tax: 58.3%
- Corporate income tax: 50.8%
- Sales tax: 45.2%
- Gross production-Gas: 34.9%
- Gross production-Oil: 28.4%
- Motor vehicle tax: 25.4%
- Other sources: 47.1%

FY-15 GRF allocations were below the estimate by \$129.9 million or 2.2%. June allocations missed the estimate by \$81.8 million or 13.2%.

Fiscal year insurance premium taxes totaled \$252.97 million, an increase of \$28.37 million, or 12.6%, from the prior year.

Tribal gaming fees generated \$128.37 million during FY-15, up by \$5.76 million, or 4.7%, from FY-14.

Gross Receipts to the Treasury slip again in June

For a second consecutive month, and the fourth time this fiscal year, monthly Gross Receipts to the Treasury were less than collections from the prior year, State Treasurer Ken Miller announced.

June gross receipts fell slightly below \$1 billion and were 3.9 percent less than in June of last year. Collections from the production of oil and natural gas dropped more than 54 percent below the prior year.

“The state economy is certainly feeling the impact of the oil price downturn.”

“The state economy is certainly feeling the impact of the oil price downturn,” Miller said. “Gross production numbers have been below prior year collections for six consecutive months, and it

appears we are seeing spillover into other revenue streams – especially motor vehicle and sales tax collections.”

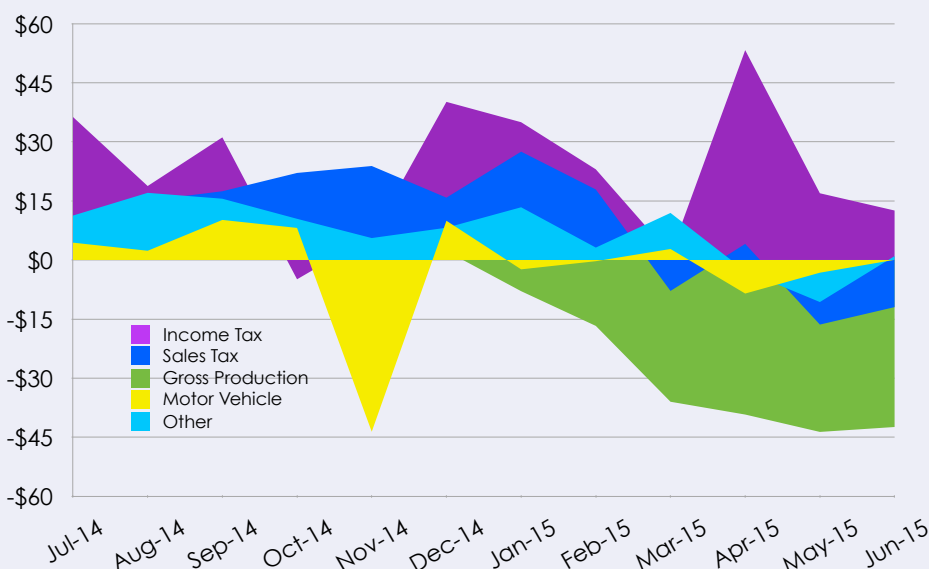
June gross production collections are from oilfield activity in April,

when West Texas Intermediate crude oil was selling for \$54.45 per barrel in Cushing. Oil prices peaked at more than \$107 last June and bottomed out at less than \$45 in late January. Prices are currently hovering around \$60.

Sales tax collections – often viewed as an indicator of consumer confidence – dipped below the prior year for the

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Monthly Gross Receipts vs. Prior Year



Dollar change (in millions) from prior year

Source: Office of the State Treasurer



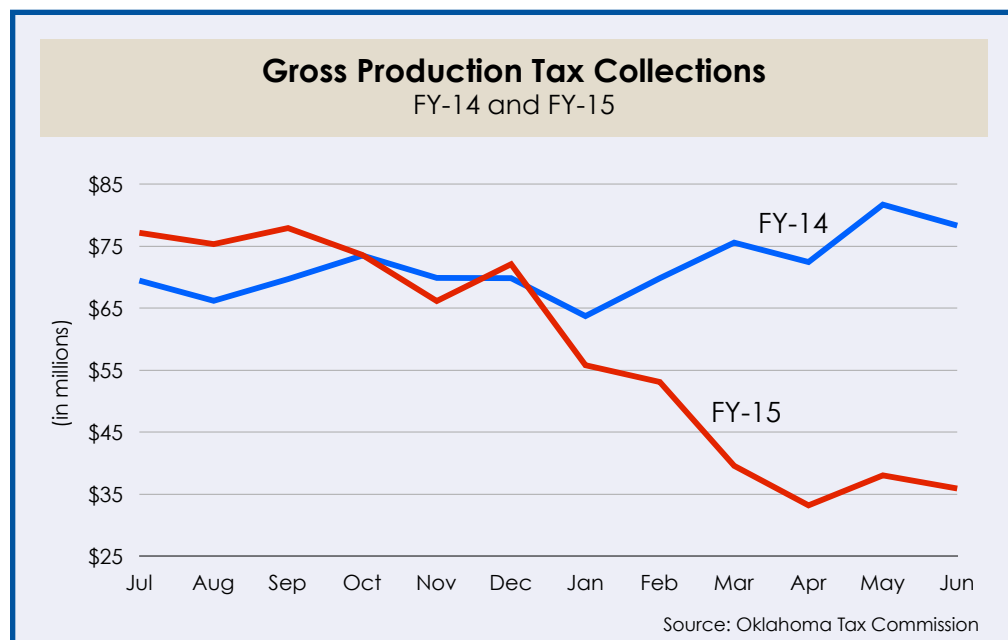
Revenue

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third time in four months. Income tax collections rebounded from May and exceeded the prior year by more than 3 percent, and motor vehicle receipts were marginally higher than last June.

Gross receipts for Fiscal Year 2015 total \$11.98 billion, with a growth rate of 2.5 percent compared to FY-14. While the rate of growth in 12-month collections has remained positive for more than

five years, it is currently flattening out. At the end of FY-14, the rate was at 4.1 percent, rose to 5.1 percent in September, and has generally gotten smaller since.



Gross production finished the fiscal year almost 19 percent below FY-14. Motor vehicle collections also finished below the prior fiscal year, down by 2.6 percent. Income tax and sales tax receipts showed fiscal year growth of 6.5 percent and 2.7 percent, respectively.

About Gross Receipts to the Treasury

Since March 2011, the Treasurer's Office has issued the monthly Gross Receipts to the Treasury report, which provides a timely and broad view of the state's macro economy. It is provided in conjunction with the General Revenue Fund allocation report from the Office of Management and Enterprise Services.

State jobless rate up for third consecutive month

Oklahoma's seasonally-adjusted unemployment rate rose by 0.2 percentage points to 4.5 percent during June, according to the Oklahoma Employment Security Commission.

The number of those listed as unemployed rose by 2,820 from May, and was up by 2,450 from last June, when the jobless rate was also set at 4.5 percent. The only supersector reporting job losses compared to the prior year was Mining & Logging, which includes the energy sector, down by 5,700.

The national unemployment rate was set at 5.3 percent in June.

Oklahoma Unemployment Report				
OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
Jun '15	4.5%	1,862,990	1,780,000	83,000
May '15	4.3%	1,863,290	1,783,100	80,180
Apr '15	4.1%	1,851,000	1,775,360	75,650
Mar '15	3.9%	1,832,610	1,761,550	71,060
Feb '15	3.9%	1,812,700	1,742,500	70,210
Jan '15	3.9%	1,794,860	1,725,430	69,430
Jun '14	4.5%	1,777,800	1,697,250	80,550

* Data adjusted for seasonal factors

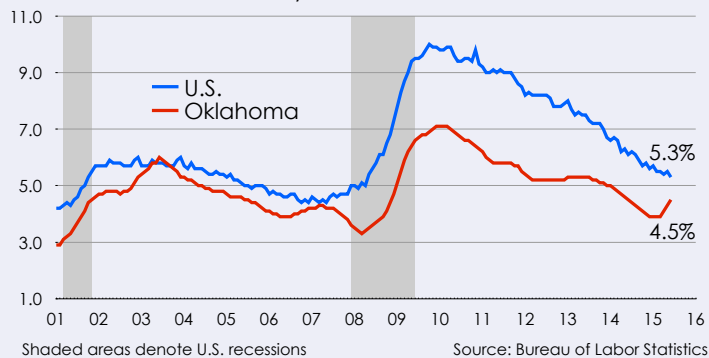
Source: OESC



Economic Indicators

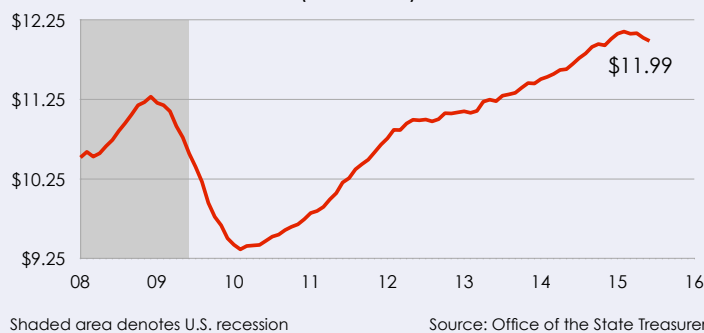
Unemployment Rate

January 2001 – June 2015



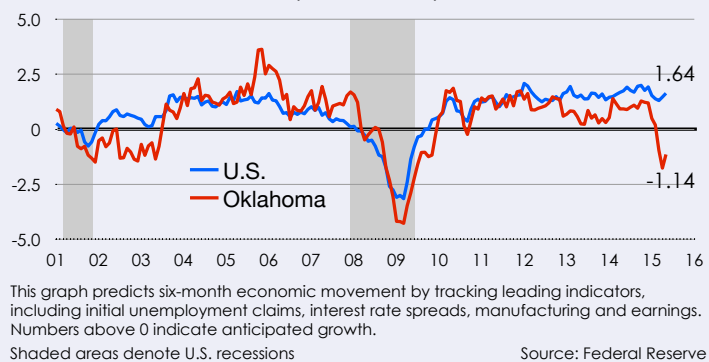
Oklahoma 12-Month Gross Receipts

January 2008 – June 2015
(in billions)



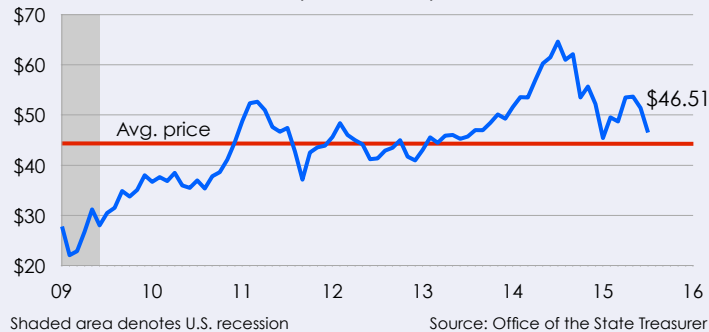
Leading Economic Index

January 2001 – May 2015

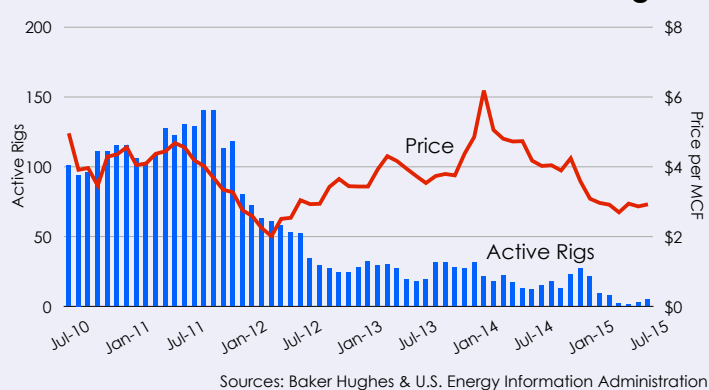


Oklahoma Stock Index

Top 25 capitalized companies
January 2009 – July 2015



Oklahoma Natural Gas Prices & Active Rigs



Oklahoma Oil Prices & Active Rigs

